State of California

EMPLOYMENT TRAINING PANEL

M e m o r a n d u m

To: Panel Members Date: January 26, 2007

From: Dolores Kendrick, Manager Analyst: M. Paccerelli

Subject: One-Step Agreement for **BAXTER BIOSCIENCE**

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition SET-Workers Earning At Least State Avg Hrly Rate
- Legislative Priorities: Promotion of California's Manufacturing Workforce Moving to a High Performance Workplace
- Type of Industry: Manufacturing
- Repeat Contractor: Yes
- Contractor's Full-Time Employees
  - *Worldwide:* 60,000
  - *In California*: 3,000
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: $197,190
- Substantial Contribution: $59,160
- Total ETP Funding: $138,030
- Total In-kind Contribution: $174,800
  - *Trainee Wages Paid During Training:* $174,800
  - *Other Contributions:* $0
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Los Angeles

INTRODUCTION:

This will be the seventh project between Baxter Bioscience (Baxter) and the Employment Training Panel (ETP).

Baxter is a manufacturer of biopharmaceuticals for the treatment of hemophilia, immune deficiencies, and other life-threatening disorders. The company qualifies for standard ETP funding as a manufacturing company facing out-of-state competition under Title 22 California Code of Regulations, Section 4416(b). Baxter proposes to train 46 employees in the skills necessary for the company to operate and maintain its new Los Angeles Fractionation Complex.

The company is also requesting ETP funds to train 15 employees under Special Employment Training (SET) targeted to frontline workers who earn at least the state average hourly wage. This training will be for employees who are newly hired and do not qualify under the standard ETP retrainee criteria.

MEETING ETP GOALS AND OBJECTIVES:

Baxter proposes training that will further the following ETP goals and objectives:

1) To promote California's manufacturing workforce.

2) To foster job retention in industries threatened by out-of-state competition.

3) To assist a company that is expanding within the State and is committed to investing in the training of its frontline workers.

TRAINING PLAN TABLE:

Grp/Trainee Type	Types Of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 90 Days
Job Number 1 Priority Industry Retrainee	MENU: Manufacturing Skills Advanced Technology	46	24 -200	0	$2,520	$14.00 $52.00
Job Number 2 SET Frontline Workers Retrainee	MENU: Manufacturing Skills Advanced Technology	15	24 -200	0	$1,474	$22.51 $40.00

Wages After 90-Day Retention

Occupation
Production Operator
Maintenance Technician
Engineer
Quality Assurance Technician
Manager
Supervisor
SET FRONTLINE WORKERS
Production Operator
Engineer
Maintenance Technician
Quality Assurance Technician

Health Benefits Used To Meet ETP Minimum Wage:	**Turnover Rate**	**% Of Mgrs & Supervisors To Be Trained:**
Although the employer pays health benefits for employees, the hourly contribution is not being used to meet the ETP minimum wage requirement.	15%	11%

Other Employee Benefits:

Paid holidays and vacation; 401K; profit sharing; tuition reimbursement; life insurance; stock purchase plan; long and short term disability benefits.

COMMENTS / ISSUES:

- ***Frontline Workers***

  All participants in this project meet the Panel definition of frontline workers under Title 22 California Code of Regulations, Section 4400(ee), except for five managers and supervisors, representing 11 percent of the trainee population.

- ***Production During Training***

  The proposed Contractor agrees that during ETP-funded training hours trainees will not manufacture products or provide services which will ultimately be sold.

- ***Substantial Contribution***

  Title 22 California Code of Regulations, Section 4410(a) states in part that:

  A substantial contribution of not less than 30 percent of the total Panel training and administrative costs shall be imposed on any employer for retraining at a facility which previously benefited, directly or indirectly, from Panel funding under at least two prior Panel agreements at the same facility in the amount of $250,000 or more. The substantial contribution is applied only if prior Agreements were within the last five years.

  A substantial contribution of 30 percent has been applied to this proposal, because the Los Angeles facility meets the referenced criteria.

- ***Repeat Contractor***

  This will be the third project for the Los Angeles location, which is the facility seeking ETP funding in this proposal.

  In its first contract, training included business, computer, continuous improvement, hazardous materials, literacy, management, and manufacturing skills for employees at the old Los Angeles plant.

  In the second contract, training focused on the new Los Angeles Fractionation Complex (LAFC). Training included manufacturing skills and advanced technology needed to operate and maintain the new LAFC.

  With the recent approval of the of the new LAFC by the Food and Drug Administration (FDA), Baxter is requesting ETP funding for a third contract, which will be a continuation of the second contract. Training will be provided to employees who did not participate in the second contract and for trainees who did not receive all training outlined in the second contract due to delay in the commissioning and validation of equipment and control systems at the new Los Angeles plant.

RECOMMENDATION:

Staff recommends that the Panel approve this Agreement because it will enable Baxter to adapt to a high performance workplace and foster retention of manufacturing jobs in California. In making this recommendation, staff notes that Baxter is a biopharmaceutical manufacturer, which is among the Panel's targeted industries.

NARRATIVE:

Baxter was founded in 1931 as the first manufacturer of commercially prepared intravenous solutions. During its first two years, the company distributed products manufactured by another company in Los Angeles. But as demand grew in the Midwest, the need for a more central manufacturing base became apparent. In 1933, the company opened its first manufacturing facility in Glenview, Illinois.

The company, now known as Baxter International, Inc., has grown to become a global healthcare company that, through its subsidiaries delivers critical therapies for people around the world through its three major businesses: Bioscience, Medication Delivery, and Renal. The training in this proposal is for the Los Angeles Fractionation Complex (LAPC), which is a part of the Bioscience division.

Through its Bioscience division, Baxter manufactures plasma-based and recombinant proteins used to treat hemophilia; and other biopharmaceutical products, which includes plasma-based therapies to treat immune disorders, alpha 1 antitrypsin deficiency, and other chronic blood-related conditions; biosurgery products for homeostasis, wound-sealing, and tissue regeneration; and vaccines. The company also manufactures manual and automated blood; and blood-component separation and collection systems.

According to Baxter representatives, the LAFC is implementing a new plasma processing which will significantly change the skills needed for its employees. Training in **manufacturing skills** will provide trainees the necessary tools to operate and maintain the new plant, such as gowning procedures, cleaning tanks and piping, and chemical transfer systems to name a few. The **advanced technology** training is directly linked to the new skill requirements driven by the introduction of the Emerson Delta V plant equipment, which represents the most advanced biotechnology and is the backbone of the LAFC. This is an extremely sophisticated system, requiring a low ratio of students, one to ten or less. Combined with the cost of the equipment used for training, per-student course costs are much higher than seen in other curriculum areas.

This proposal will also include training for 15 Special Employment Training (SET) frontline workers. This group, which consists of newly-hired employees who do not meet the eligibility requirement for standard ETP training, will also receive training in manufacturing and advanced technology.

NARRATIVE: (continued)

Commitment to Training

Baxter has provided a broad range of training to include management leadership programs, lean manufacturing, project management, and communication skills.

The proposed ETP training will focus on the Los Angeles Fractionation Complex, in which the company has invested over $200 million. The training is specifically aligned with the technology needs of operating this new plant. The commitment and investment for this plant was made several years ago and the company began breaking ground four years ago. With the recent FDA approval, the LAFC will begin commercial production this year and the company will bring fractionation capacity in the Los Angeles plant up to 3 million liters of plasma by 2009. Increasing worldwide competition has caused the company to be in a more difficult position to afford training.

SUBCONTRACTORS:

None

THIRD PARTY SERVICES:

The applicant states that no third party services were used in the development of the ETP Application.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

PRIOR PROJECTS						
Agreement Number	**Location (City)**	**Term**	**Contract Amount**	**Amount Earned**	***Planned* In-kind Contribution**	***Reported* In-kind Contribution**
ET01-0348*	Thousand Oaks	06/30/01 - 06/29/03	$357,370	$59,150 (17%)	$570,000	$96,900
ET02-0282**	Los Angeles	04/17/02 - 04/16/04	$499,290	$65,650 (13%)	$86,640	$11,263.20
ET04-0535***	Los Angeles	11/02/04 – 11/01/06	$546,000	$236,323 (43%)	$6,212,514	$1,553,128

** Baxter states that the its low performance was due to several factors: a rise in production demands, the opening of a new production suite, and the implementation of a new product finishing process, all of which impacted the company's ability to release individuals to attend training. This Agreement was for the Thousand Oaks facility, which is not included in this proposal.*

*** Baxter contends that there were several reasons for its performance: during the regular production cycle spontaneous Food and Drug Administration (FDA) inspections occurred which took extra time away from the frontline workers duties; the marketing dynamics were unpredictable; and the product is a delicate, life-saving product that must be given first priority.*

**** The low completion rate was due to repeated delays in the commissioning and validation of equipment and control systems at the new Los Angeles Fractionation Complex (LAFC). Baxter anticipated approval from FDA at the beginning of the contract, at which time, the company planned to hire more individuals and transfer employees from the old plant to the new LAFC. Baxter received FDA approval on September 29, 2006, after the training period allowed in this contract. The low completion rate was also due to changes in management and project staff. Most of the training took place towards the middle of the contract term when new staff took over. The same staff will administer this contract stating that they have gained valuable experience during that time in delivering, administering, setting goals, and utilizing the ETP online database, which will allow their organization to be more successful in this proposal.*

To ensure successful completion of this project, Baxter contends that the proposed training is directly related to urgent business needs of its LAFC. With recent FDA approval, LAFC will begin commercial production this year. Employees need to be trained to operate and maintain the newly validated LAFC.

BAXTER BIOSCIENCE

MENU CURRICULUM

Class Lab Hours
24 - 200

Trainees will receive any of the following:

MANUFACTURING SKILLS

Gowning Procedures
Maintenance concepts and procedures
COP (Clean Out of Place) cleaning
CIP (Clean In Place) cleaning tanks and piping
Semi-automatic buffer preparation
Automated chemical transfer systems
Semi-automatic filter presses
Dedicated equipment
Semi-Automatic Centrifugation

ADVANCED TECHNOLOGY

Emerson Delta V
Digital Instrumentation
Calibration
Emerson System for Plant Control Documentation
Touch Screen Controls And Alarms
Sampling Methods and Requirements
Data Handling Methods
Exception Handling within the Fractionation Process
Electronic Batch Record Keeping Concepts
Production Planning/Batch Processing Requirements
Clean Room Procedures

Comment: The parties agree that the training identified in this Curriculum may be revised from time-to-time during the term of this Agreement at the request of Contractor and with the prior written approval of ETP. (See also Section 12 in this Agreement.)